

BUTTE-SILVER BOW LOCAL GOVERNMENT STUDY COMMISSION

Minutes of the Meeting

May 19, 2005

Butte-Silver Bow Courthouse, First Floor Conference Room

Meeting Date: May 19, 2005

Time: 5:30 p.m.

Place: Butte-Silver Bow County Courthouse, First Floor Conference Room

Call to Order: Chairman Bob Worley brought the meeting to order at 5:30 p.m. and called roll with the following results:

Members Present: Tony Bonney, Dave Palmer, Meg Sharp, Northey Tretheway, Bob Worley, Shag Miller and Ron Rowling.

Excused Absence: Cindi Shaw

Others Present: Lori Maloney and Danette Harrington

Approval of Minutes: Postponed approval of the minutes to May 26, 2005

Comments from Ron Rowling: Thanked everyone for attending tonight's meeting and mentioned scheduling J.R. for next week's meeting.

Citizen's Comments: None

Items Not Addressed on the Agenda: Public hearing: Bob Worley mentioned advertising through the party line and focus and will cover that in further detail.

Guest Speakers: Chairman Bob Worley introduced the speakers.

Dr. O'Neill, Past Commissioner-encouraged everyone to ask questions and thanked the Study Commission members and recalled the time and expense that it takes to be a member on the Study Commission. Dr. O'Neill commented on the events taking place in BSB such as elected officials versus appointed officials. Of all the things he recalled juggling with is who is elected who isn't, what are their responsibilities and who are they responsible to and finding out what we can and cannot do on the commission and stated he is sure we have had to rely on Bob McCarthy. Dr. O'Neill commented that he has been given the privilege to come back and speak to the Study Commission members. The previous commission asked Dr. O'Neill to come back, he is not sure if anything happened and when they put their vote to the public they did it a little different. They bundled all in one ballot and it was just a yea or nay and it failed. The second time around he thinks they did some housecleaning with government and the rule to pass

things that were appropriate for BSB some of which didn't pass. He is not sure how this study commission is going to decide and is probably still trying to figure out what is necessary and what is going to be on the Agenda. He had some thoughts and insights. Northey Tretheway was colleague of Dr. O'Neill's and commented that it was interesting that both him and Northey were still part of BSB and neat to have Northey. One thing that he wanted to emphasize was on personalities and overlooking them. He stated that one will run into an elected or appointed official and will be working in front of you and discussing their job and may feel threatened by having to explain their job duties. He stated how his commission was the first to evaluate the combined government of BSB. State of MT has assumed more responsibilities most notably in the assessor's office. In both censuses a fiduciary responsibility to the public was outlined as a need for change. Look into the nuts and bolts of this organization; this form of government and see where money can be saved. The main argument that will result in less representation to our commission that song rang out right now from the county superintendent of schools and the assessor's office. However there is a moral for efficiency and cost savings, which the electorate of BSB has given you charge to investigate. Resume responsibility to present our findings to them in public forum before the election than it is their responsibility to go with a voting booth.

Dr. O'Neill then went on to discuss antonymous boards. When he was in his study commission, the airport board was considered a quazi board he believes it has evolved into a truly independent board. He was not sure if the study commission has investigated that board or communicated with the commissioners. He knew Shag Miller was still on that board. Have first hand knowledge and strong feelings for being part of that board and what it does and why it's the way it is. Dr. O'Neill responded by stating that he was concerned. One point of discussion that came at that time, was either himself or someone else on the last study commission asked Angello Patroni why don't they look at relocating the airport over to Anaconda/Deer Lodge or Silver Bow so we could take advantage more of Dillion, Anaconda and Deer Lodge. Dr. O'Neill stated that he never knew what happened with that issue or if it has been addressed. Bob Worley explained that they had addressed that issue with Rick Griffith last week and explained the crosswinds and how it is not good ground for an airport.

Dr. O'Neill went on by sharing a story of his. Highlight of making difficult call-county it was late summer of their final year. They were dealing with county superintendent of schools that is coming to vote. The superintendent and his wife and there was several other positions that were up for vote Dr. O'Neill stated he was late getting there. He was at the Civic Center in their conference room. Dr O'Neill stated that it was like a party at first until he sat down and heard that the vote was tied. Fred coached him and taught him in high school and Dr. O'Neill thought this was the worst situation he could be in. Voted against his job and probably didn't gather any votes from Dr. O'Neill afterward but it was a call he had to make. Bob Worley asked about Dr. O'Neill's concern about antonymous boards and particular to the airport board what was his concern? Dr. O'Neill replied that

they are outside of checks and balances. Dr. O'Neill stated he has no reason to believe it is not efficient.

Ristene Hall asked how does he feel about all of their antonymous boards such as URA Board, Dr. O'Neill presumes that the URA has done a responsible job. When the Montana Power Company was funding it for the most part then he felt the money was spent well in an appropriate area of uptown of Butte. Ristene replied no as of the airport board and the fact that they are antonymous and they do not have to ask anybody. Dr. O'Neill replied that his concern was however many people are on the board that's it. The money comes in from independent source with the tax and the airport receives most of its money from the federal government and some local and state money. The URA is from business and the uptown committee. Should there be more accountability to the government?

Bob Worley replied that the Airport receives 2 mills from the County Taxes? Bob Worley asked if the Health board was also an antonymous board. Bob McCarthy replied no. Bob McCarthy stated that there are three boards, the Airport Board, the Housing Authority and the Port Board and several semi-antonymous. Bob McCarthy explained the difference between the two is an antonymous can approve most of their budget. A semi-antonymous board has to have its budget approved by the government fund and other than the budget authority they are nearly antonymous. Bob McCarthy commented that the Study Commission does not have any authority to approve or disapprove a board. Bob McCarthy stated you can approve an airport authority but that requires a board. Bob McCarthy continued by stating that there is no choice in having a Health Board or Planning Board. He stated you don't have URA organization but if you do have one you have to have a board. He stated that intent of legislature is to provide that somebody other than the governing body runs these things and does not want local governing body to run the Planning Board and is a Citizen board. It's very clear that the local health board cannot be run by the governing body and has to be run by medical officials. Bob McCarthy continued to explain that the Airport Authority which is not an antonymous board exists is that the feds don't trust local officials and they want to have a board that is separate. They want it to be nonpolitical.

Dr O'Neill agreed with Bob McCarthy's statements. Dr. O'Neill agreed that it could be good or bad if it is acting appropriately and that responsibility has changed. For example, the feds would be served under the state whether it's a trust issue or the commission is uneducated or irresponsible and have proven so in Butte or somewhere else in Montana. Dr. O'Neill commented that he felt it is not good because it is taking away responsibility or accountability. Bob McCarthy commented that an airport authority is not needed. Every community, except Billings, has an airport authority. Every airport in Montana at one time was run by a city including Butte. The reason they all converted is because

there was more federal money available. Feds will give more money to an airport authority than they will to an airport that is run by local government.

Bob Worley asked if there were any other questions for Dr. O'Neill and thanked him for attending.

J.R. Richardson was excused.

Dick Tamblyn of Newland and Company started by discussing the complexity of his work. He felt it was important people understand what it is accountants do. Dick commented that most people think they are tax people, which is part of what they do but a large portion of their work is performing audits. Another misconception is that they do spot checks. They do statistical sampling, judgmental sampling, look at various documents based on audit risk and their judgment of what the internal controls are within that entity and determine which documents to audit. Audit all offices of Butte-Silver Bow but does not include the airport, Port of Montana. This does include the URA.

They as Accountants and Auditors are regulated by themselves. They determine what is proper disclosure to who uses the financial statements, which are the general public, bondholders, which are big users of financial statements and the State of Montana. They need to have consistency in financial reporting. Because of this, they have auditing standards, disclosures and government auditing standards, which are very stringent. There are over 100 auditing standards in place currently and over 150 in accounting standards. They have a lot of information to go through to make sure people's financial statements present fairly in all respects. They are tested to uphold these standards but do not have a government body telling them what they need to do. How they regulate themselves is by peer review. They audit themselves every 3 years. There is a team of qualified accountants usually from a different firm. They started doing this voluntarily in 1984; it is now mandatory. This does not include tax it is only an accounting audit. This is important to make sure they are complying with their own standards, which are constantly changing. They have a built in system of Certified Public Accountants of the United States to make sure they are doing a proper job.

Dick Tamblyn then discussed the Certificate Of Achievement for Excellence in financial reporting. Butte-Silver Bow has received fourteen of these. Butte-Silver Bow has been one of first counties to get it. This is a nationwide organization. When they get financial report they make sure it complies with all recording standards in governmental county. This is a good thing because with the Certificate of Achievement for Excellence the county saves hundreds of thousands in interest on bond issues because of that certificate.

Dick then went on to discuss what it is they do. They apply all the standards mentioned above and do an audit. This takes six months, they start in August and are done in January.

They have about six employees that work in that position and rotate duties. Dick discussed the importance of planning and internal control in auditing. They plan their audit to set their scope to determine the internal controls that are in place, what their risks are. Revenue is a big area for them because there is risk involved. They determine if you have big loans and assess risks and component evaluations. They determine where there is a high-risk area is that is what they focus on. They evaluate internal controls, assess risk, do component unit evaluations, talk about the airport, which is not a component within Butte-Silver Bow.

The next area he discussed is the general area. They have general procedures doing every audit. They will be analyzing the report on an immediate basis asking how does this compare to last year? How does this compare to the budget is there something out of place? That sets the scope.

They look at community contingencies; there is a lot of off balance sheet items that they analyze. They review the minutes to determine the audit areas that need attention. The next big area Dick discussed was cash and investments, which is the Treasurer's Office. They test for proper cut off, test the balances/reconciliation, confirm all balances with outside entities, and test remittances in the State of Montana. The next topic Dick covered was revenue and receivables. Dick went over some of the revenue sources such as, real/personal taxes, motor vehicles, licenses and permits, miscellaneous revenue, and so forth. Dick commented that there a lot of state compliance in revenue. This does not include any of the Water Company; it is separate which has a Water Department Report that is required by the governing parties. They do an investment pool, which is required by government reporting requirements.

Dick spoke about the many number of receivables Butte-Silver Bow. There are loans, grants, taxes, assessments and various receivables throughout various offices around the whole county. They observe documentation and confirm balances with the people owing on the debt.

The next topic Dick discussed was expenditures and payroll. It is a risk area that includes short-term payables, warrants, accounts payable, waste funds, etc. They cover liabilities such as: test transactions and take a sample and high dollar sample for authorization and state compliance. They take a random sample of the whole unit and then take a high dollar amount. They test those for proper authorization, support and state warrants. They do an analytical review of expenditures and compare that with the budget. They want to know what the budget amount is and where large expenditures within that budget are being distributed. The same processes are done in regard to payroll. They test leave records, vacation and compensated absences payable. That is how much the county would owe employees if they were to all quit at one time. They test acquisitions, retirements, community depreciation, state laws in asset management and all business activities such as: Community facilities, Home Health, Small Business Incubator, etc. They also test all government activities such as: General government, Public Safety, Public Works, Public Health and so forth.

Dick then discussed other financial sources that they analyze such as the issuance of bonds.

They test a lot of outside offices, those are the places where cash is collected outside from the Treasurer's Office and then deposited by the Treasurer. Landfill, the Civic Center and so forth collect a lot of cash and they check to make sure that controls are in place. They test insurance policies. They do a lot of budget work. Dick explained that these are all of the things summed up that they do in regard to expenditures.

The next topic Dick discussed was the financial statement. Dick explained that this is an extremely complex area. He discussed how everything was laid out on the financial sheet such as the expenses and revenues. Dick pointed out that the Revenues listed at the top of the financial sheet do not cover taxes. He discussed the fund statements and the reconciliation of those with the liabilities from the balance sheet. They perform all of their auditing procedures to make sure that report is fairly presented and there is a clean opinion that can be made from it.

Dick asked if there were any questions. It was asked in all the years that he has looked over the books in BSB County, has he ever come across anything that is questionable as far as the way things are done? Dick stated that there were some things with the Department of Justice that he had to address but now the Department of Justice has improved their program.

There was discussion in regard to internal controls. Pat Burt stated the basic internal control is that you have segregation of duties and in some instances it is not practical in the smaller offices that have one employee and require them to have two employees just to segregate duties. It is a common audit comment that they have had for years and it mainly relates to segregation in small offices. In a lot of instances it is just not practical to double your staff in a small office in order to comply with that law. Bob Worley commented that there is really no way to control those kinds of things in a small office. Pat replied that he would not say there really is no way to institute what is called compensated controls in other checks and balances, other ways to check the numbers. It is not impossible it is just to determine what is practical.

Bob Worley mentioned a question that has been asked by several citizens and he understands why government books are done according to the standards Dick Tamblyn discussed. Bob continued to explain how it is very difficult for the average citizen to understand the Revenue and Expense reports because so many things are split out. Bob Worley commented that it would be nice to see something done that the common citizen of Butte can understand. Bob commented that this might require two different sets of books. Pat Burt replied that the professions attempt to do this was GASB 34 that they had just went through trying to respond to the needs of people. Their complaint was the financial statements were difficult to understand so they came up with GASB 34 financial

statement. Pat stated that the unfortunate thing is that these standards are really driven by what the large governments perceive and what the users to the large government perceive as useful financial statements. The smaller governments have very little say in what ultimately gets done. Bondholders are really users of the financial statement. Pat stated that BSB is a larger government but when you're even a very small government, they have to comply with the same reporting standards and their complaint is exactly the same. They see absolutely no use for trying to comply with these standards when they are a small government. The State of Montana has forced all governments to adopt GASB 34. Bob asked if this would be something difficult for the Finance and Budget Office to produce? Pat would say it would be difficult and to have to sets of books done would require a separate accounting system and a lot of manpower. Northery Tretheway commented that it would not impractical to slice the information from the statements and put it in a readable format so taxpayers could easily interpret it. Dick stated that a manageable report could be created but they are not typical in government but are common in the private sector.

Bob Worley commented on what Ristene mentioned in a previous meeting about a simple pie chart that shown the distribution of expenses. Dick replied that could be done in Excel.

Bob Worley mentioned the current payroll problems in BSB that the Council of Commissioners decided not to take further action on. Bob Worley asked if there are any kinds of controls within Budget and Finance. For example if they saw an employee that had so many hours of overtime, week after week, does that raise a flag? Dick stated that if a supervisor approves a timesheet, it probably would not raise a flag. They don't look at every timesheet. They only take a sample. Dick continued to state that the best internal controls could be circumvented by collusion.

Bob Worley commented that they have an elected auditor in BSB and he has not figured if the auditor works separate from Budget of Finance or if is should be part of Budget and Finance, where it fits to make it more efficient. Bob asked what their opinion is on that. Dick replied that it should not be part of Budget and Finance. Dick further explained how the auditor is not independent but should be as independent as possible. Dick stated that the auditor should be directly responsible to the Commissioner.

It was asked what the difference is between what an auditor does and what the Finance and Budget Department does on a day-to-day basis. Bob McCarthy commented that he often hears people ask why is a Finance and Budget Department needed? Bob McCarthy went on to explain it is because nothing can be audited unless there is a really good internal auditing system. Pat commented that the main reason is internal controls. That is a control that they rely on is the Finance and Budget staff's knowledge of accounting and governmental accounting principals. They see it a lot in really small business that their workload increases ten times if the individuals who are performing it don't have

skills and don't understand the accounting principals. If there were no Finance and Budget Department there would be no clean opinion.

Bob McCarthy asked Dick if he would talk about the difference between a financial accounting system that he knows of that is in place here and the one that is in place in Anaconda/Deer Lodge. Bob McCarthy asked why they got into trouble. Dick replied that he did not know. Pat Burt commented their guess is that nobody looked at the basic general fund financial statement where expenditures exceeded revenues by a significant amount and it was not noticed.

Bob thanked them for coming and asked if there was anything they thought should be changed in the charter that would help Budget and Finance. Dick and Pat replied that they could not think of anything.

Discussion of Guest Speakers: Bob Worley mentioned that Evan Barrett would like to talk about that might make government more efficient. Tony commented that when he was talking to Dr. O'Neil the other day he gave some suggestions to compare to the County Superintendent of the Schools to see if Ron could find out some information such as what Cascade County looks over, how many students, what the salary is and so forth. Tony asked if he could get comparisons. Bob Worley commented that he has already taken care of that today with Ken Weaver. Ken is going to look up that information.

Bob Worley was disappointed that nobody from the school district attended. There were two scheduled speakers, J.R. Richardson who did ask to be excused. Bob Worley was expecting the Superintendent of Schools to be there and will see if he can schedule him to come at a later date. Bob Worley stated one of the reasons he wanted people from the school district to appear before them is to explain the budget. Bob Worley commented that a lot of the BSB budget is not really spent on the employees and the activities of local government but is spent by the school district. Bob Worley stated that it runs somewhere around 78% that the school district expenses. Tax payer dollars that are spent in this county.

Survey Update: Dave had nothing new. Bob mentioned the phone conference scheduled for May 23, 2005. This will be published to the Montana Standard tomorrow, May 24, 2005. Questions will need to be brought on Monday for Ken Weaver. Northey Tretheway asked if he was going to send anything and thought it would be good to have it documented. Northey Tretheway suggested faxing and making documents. Dave Palmer-mentioned Land Records becoming a separate department and make Rob Macerowski a Department Head since there was a clear intent from last Study Commission to do that. Bob Worley. asked how many would be able to attend the phone conference. Dave will e-mail suggestions to the Study Commission's secretary, Jennifer Rozinka. Bob Worley thought due to timing issues, they could schedule the public

hearing for June 16, 2005. Bob suggested that there be no guest speakers for June 2, 2005 meeting and spend the time discussing ideas for the public hearing. Northey Tretheway agreed to do his power point presentation. The type of advertising discussed is party line or focus show through KXLF. They will need lead-time. Bob Worley has talked to Ron Davis in regard to advertising through the party line. Ron will charge lowest rate, which is \$5.50 per ad and will run twice as many ads versus other radio stations. Chris Ackerman has agreed to do the same thing although his rate is higher he is willing to adjust that amount. The Montana Standard charges \$14.40 per column inch. If they did four ads, within a seven-day period, the cost per inch would be \$9.00. Northey Tretheway asked about the Butte Weekly stating that their ads are much cheaper. Tony thought their deadline was on Wednesday. Dave Palmer asked about the public hearing ideas and what is going to be put on the ballot. Bob Worley replied that everyone needs to prioritize his or her ideas. He suggested putting review work on 2nd of June. Bob Worley mentioned having the Council Chambers for the public hearing. Tony Bonney and Northey Tretheway volunteered to do the party line. Dave Palmer asked Bob McCarthy if a legal notice is required. Bob McCarthy stated that there needs to be two ads, in the legal section, to the Montana Standard.

Bob Worley asked if they should make June 16th the first required public hearing. Bob Worley discussed having the hearing at 6:30 on June 16, 2005 the council's chambers. Bob Worley is the contact person.

Meg Sharp asked if Bob McCarthy knew the estimated cost of a legal ad. Danette Harrington responded approximately \$90.00 per ad. Bob McCarthy discussed that there has to be two publications six days apart from each one. Bob Worley stated that people read the paper on Thursdays and decided to have the first legal ad published on June 09, 2005 and the second published on June 15, 2005. Bob stated if they wanted people to come they need a display ad. Bob McCarthy is taking care of providing the wording for the ad. Bob Worley commented that the estimated cost for advertising the public hearing would be \$1,500.00. Don't want more than 5-6 days ahead of radio ads. If the Study Commission spent \$250.00 to each radio station that would provide 100 ads and there is no need for 100 ads. Tony suggested splitting the 100 ads between the three radio stations. Meg Sharp discussed the different costs for ads through the Montana Standard. Meg Sharp and Shag Miller volunteered to do the layout of the ad.

Bob Worley scheduled Jon Sesso, Evan Barrett, Bill Penn and Karen Byrnes for May 26th. June 2nd there will be no scheduled speakers.

Date for Next Meeting: Next scheduled meeting is May 23, 2005 (phone conference) and May 26, 2005.

Meg Sharp asked if quorum was needed. Bob felt we would have a quorum. Bob McCarthy stated a quorum is needed only if there is an action that is going to be done.

Adjourn: Bob Worley entertained a motion to adjourn.
Wayne Harper made a motion to adjourn the meeting; Northey Tretheway seconded the motion. The meeting adjourned at 8:09 pm.